

COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

STAFF REPORT

STATE DEPARTMENT AND INTELLIGENCE COMMUNITY INVOLVEMENT

IN DOMESTIC ACTIVITIES

RELATED TO THE IRAN/CONTRA AFFAIR

September 7, 1988

**STATE DEPARTMENT AND INTELLIGENCE COMMUNITY INVOLVEMENT
IN DOMESTIC ACTIVITIES
RELATED TO THE IRAN/CONTRA AFFAIR**

OVERVIEW

In March 1987, the staff of the Committee on Foreign Affairs issued a preliminary report of its investigation into the award of six contracts by the State Department's Office of Public Diplomacy for Latin America and the Caribbean (S/LPD) to International Business Communications (IBC) and its principal, Frank Gomez. The report raised a number of key questions, including:

Why was a noncompetitive \$276,000 State Department contract with IBC classified SECRET during the same time period that IBC was engaged in transferring monies to Lake Resources, an account controlled by Oliver North for the purpose of aiding the Contras? Were any of the State Department contract monies in fact used illegally to lobby Members of Congress? Was S/LPD engaged in prohibited propagandistic activities? Were State Department monies illegally diverted to aid the Contras?

Due to the difficulty the Committee staff encountered in its efforts to obtain relevant information from the State Department and to the fact that IBC had been involved in funneling money to secret Swiss Bank accounts, many answers to questions raised in the report were not immediately forthcoming. It was the Committee staff's opinion that

these pressing questions could only be properly reviewed by the Select Committee to Investigate Covert Arms Transactions with Iran. The Chairman of the Committee on Foreign Affairs, Rep. Dante Fascell, then forwarded all relevant documents in the Committee's possession to the Select Committee.

On March 31, 1987, Chairman Fascell and Rep. Jack Brooks, Chairman, Committee on Government Operations, issued a joint letter to the General Accounting Office (GAO) requesting it to conduct an investigation and render a legal opinion on the legality and propriety of certain activities of S/LPD. Two separate reports were subsequently prepared by GAO.

The first GAO report, issued 9/30/87, examined whether or not S/LPD had been involved in illegal lobbying and propaganda activities. The report concluded that S/LPD's activities involving the preparation and dissemination of certain types of information violated a restriction on the use of appropriated funds for publicity and propaganda purposes not authorized by the Congress. The report also noted that the available evidence did not support a conclusion that antilobbying statutes had been violated. (GAO auditors, however, informed Committee staff that documents in the possession of the Iran/Contra Select Committees, which were not made available to GAO until after its report had been issued, would have required GAO to reevaluate S/LPD's compliance with the anti-lobbying statutes.)

The second GAO report, issued 10/30/87, assessed the contracting activities of S/LPD. The report found that S/LPD generally did not follow federal regulations governing contractual procedures.

In addition to the GAO reports, the State Department's Office of

Inspector General (OIG) issued a report that examined the Department's contracts with International Business Communications (IBC) and Frank Gomez, one of its principals. The OIG's report concluded that many of the purchase orders and contracts awarded by S/LPD were questionable in the later periods as S/LPD's staff grew and gained experience; that the acquisition process for awarding and administering the purchase orders and contracts was mismanaged; that one contract was improperly classified SECRET, apparently to avoid competition and public disclosure; that some of the charges in the final contract between S/LPD and IBC were questionable; that violation of ethical standards and/or conflict of interest restrictions may have occurred in the case of two individuals; and that information provided by the Department to Congressional requesters was inaccurate, incomplete, and misleading. The OIG's report also recommended specific actions to remedy administrative problems identified in the report.

This final staff report on the activities of S/LPD serves both as a summary of the previously described reports on the Office of Public Diplomacy for Latin America and the Caribbean and as a description of how a relatively obscure office in the State Department played a central role in the creation and management of the private network involved in the Iran/Contra affair. It is the Committee staff's contention that a preponderance of documents obtained by the staff, as well as those released by the Select Committees, demonstrates that S/LPD was set up and managed by operatives in the National Security Council (NSC) who maintained close ties with Oliver North and former CIA Director Casey. The NSC staff succeeded in having Otto Reich named as the Director of the new Office Latin America of Public Diplomacy which reported directly

to the NSC. IBC's two principals--Richard R. Miller, former head of public affairs at AID, and Francis D. Gomez, former public affairs specialist at the State Department and USIA--were then hired by S/LPD through a series of sole source, no-bid contracts to carry out a variety of activities on behalf of the Administration's policies in Central America.

During the same period that it had been receiving payments from the State Department totalling in the hundreds of thousands of dollars, IBC also served as the conduit through which millions of dollars from the illegal sales of weapons to Iran were diverted for use by the Contras as well as other purposes. Also while under contract to the Office of Public Diplomacy, Miller and Gomez participated in activities designed to influence the media and public to support the President's Latin American policies, including sophisticated television ad campaigns that were targeted at Members of Congress who were not supportive of the President's Central America policy. Many of these activities by design were covert. Johnathan Miller, Ambassador Reich's Deputy at S/LPD (who later resigned from the White House staff when it was revealed that he had assisted Oliver North in cashing travellers checks for the Contras), for example, described Gomez as a "cut-out" who once made a clandestine trip in Central America and promoted media interviews and background briefings with representatives of the Democratic Resistance in Nicaragua on behalf of S/LPD, without acknowledgment of the State Department's role.

In the course of assisting the Contras with their public relations, Miller and Gomez were introduced to Oliver North and Contra fundraiser Carl "Spitz" Channell. Under the direction of North and with the

financial assistance of Channell, IBC quickly became a central player in the so-called "enterprise." IBC's role, in fact, was so highly valued that it was described by one White House official as "the White House outside the White House."

THE GAO AUDITS

Responding to a March 31, 1987, joint request issued by Chairmen Fascell and Brooks, the GAO released two separate reports on the activities of S/LPD. The first report issued by the Comptroller General on 9/30/87 concluded that S/LPD had "engaged in prohibited, covert activities designed to influence the media and the public to support the Administration's Latin American policies." The use of appropriated funds for these activities constituted "a violation of a restriction on the State Department annual appropriations prohibiting the use of federal funds for publicity or propaganda purposes."

GAO's conclusion centered on S/LPD's decision to use a university professor, John F. Guilmartin, Jr., an adjunct professor of history at Rice University, to write a newspaper article in support of the Administration's Central America policy without alerting readers or, apparently, the newspaper that Guilmartin had been a paid consultant to S/LPD.

The Guilmartin article was one of five "white propaganda" operations described in a March 13, 1985, memorandum from S/LPD to the Assistant to the President and Director of Communications. The confidential memorandum stated the following about the Guilmartin

article:

"Attached is a copy of an op-ed piece that ran two days ago in The Wall Street Journal. Professor Guilmartin has been a consultant to our office and collaborated with our staff in the writing of this piece. It is devastating in its analysis of the Nicaraguan arms build-up. Officially, this office had no role in its preparation."

Another item in the memorandum describes the use of a "cut-out" to arrange visits to various news media by a Nicaraguan opposition leader. Although the term is not defined, it appears to reflect an intention to hide the fact that the opposition leader's visits were being arranged by the Government.

Section 501 of the Departments of Commerce, Justice, State, the Judiciary, and Related Agencies Appropriations Act, 1985, states: "No part of an appropriation contained in the Act shall be used for publicity or propaganda purposes not authorized by the Congress." Although the legislative history of section 501 is silent as to the intended effect of the restriction, GAO has had numerous opportunities to interpret language similar to section 501 as prohibiting covert propaganda activities of an agency, which applies to the situation of Professor Guilmartin and visits of various Nicaraguan opposition leaders arranged by S/LPD.

The GAO report concludes that "the described activities are beyond the range of acceptable agency public information activities because the articles prepared in whole or part by S/LPD staff as the ostensible position of persons not associated with government and the media visits arranged by S/LPD were misleading as to their origin and reasonably

constituted 'propaganda' within the common understanding of that term."

On October 30, 1987, GAO issued a second report on the State Department's administration of certain public diplomacy contracts.

In its evaluation of LPD's use of contractors, GAO reviewed 25 contracts S/LPD entered into since the office was established. The contracts were valued at approximately \$263,000. Most of the contracts reviewed involved the submission of written products by individuals and, in some instances, companies.

The GAO audit found that S/LPD did not adhere to federal regulations governing contractual procedures. Specifically, the audit reached the following three conclusions:

1. The justifications to support the exclusive use of sole-source contracting by LPD were inadequate.
2. Various other procurement requirements were not adhered to in awarding contracts, such as encouraging competition, obtaining required contract officer approvals before engaging contractors, and, in one case, abiding by limitations on the salary paid to a retired military officer.
3. Many products were different from those contracted for with no evidence that agreement was reached on changes to contract specifications.

With respect to the issue of sole source contracting, the GAO study concluded that all 25 contracts under review did not meet federal requirements for sole source justification. The contracts contained no description of how the writers selected were unique and why no one else could perform the desired requirements; nor did the contracts contain

any description of efforts made to ascertain whether equally qualified writers were available. Under the requirements of The Competition in Contracting Act of 1984, both of these conditions must be fulfilled before a sole source contract can be awarded.

In general, GAO found little evidence that S/LPD had made any effort to locate other sources to compete on S/LPD contracts. Even a sole source procurement requires such an effort to help support the sole source justification. In the one instance where the Department's Procurement Office located a competitive source, S/LPD withdrew its requirement for these services before the potential contractor could be interviewed. At the time, these services were being provided by Mark Richards Associates, Inc., who had performed services for S/LPD under a series of sole source contracts since July 1984. Later in the year, however, S/LPD, in an about-face, requested the continued services of Mark Richards Associates, whose principal, Colonel Mark Richards, had extensive experience in military intelligence. In its request to renew Richard's contract, S/LPD cited "unusual and compelling urgency" as the basis to award a sole-source procurement. S/LPD also added that "the character and sensitivity of the services precluded disclosure of the contractual arrangement to the public."

GAO also noted that Mark Richards, an S/LPD employee detailed from DOD and a soon-to-be-retired Air Force Colonel, would be subject to dual compensation limitations if employed as a consultant to S/LPD after his retirement from federal service. This would reduce his military retirement pay, which, according to Colonel Richards, was unacceptable. Accordingly, Colonel Richards incorporated himself, and the Department negotiated a sole-source contract with Mark Richards Associates for

media consultant services. This permitted him to continue working for S/LPD without a reduction in his retirement pay. Between July 1984 and February 1986, Mark Richards Associates received approximately \$136,000. This arrangement, however, circumvented two Office of Management and Budget (OMB) circulars that restrict the use of contracts to avoid salary limitations for former government employees.

Of the 25 contracts GAO reviewed, 16 specified one or more original written products (41 in all). Most of the contractor products GAO obtained, however, differed substantially from the contract scope of the work. According to S/LPD personnel, few were incorporated into S/LPD publications.

GAO's analysis was hampered by the lack of work products in S/LPD's files. Auditors were only able to obtain 28 of the 41 research papers. Of the 28 work products obtained by GAO, only 13 addressed the topic specified in the original scope of work. In the other cases, the product for which there was an "urgent need" was not produced; rather, a substitute topic was addressed.

REPORT OF THE STATE DEPARTMENT'S OFFICE OF INSPECTOR GENERAL

In response to a March 1987 request from the Secretary, the staff from the Office of Inspector General (OIG) examined the Department's contracts with International Business Communications (IBC) and Frank Gomez, one of its principals. The examination covered six purchase orders and contracts totalling approximately \$436,000 with IBC or Frank Gomez between February 1984 and September 1986. In July 1987, the OIG released its report containing the following findings:

1. Need for the Contracts—There was justification for the initial

purchase orders for outside assistance, during a temporary start-up situation in S/LPD early in 1984, but the practice continued through fiscal 1986, after the urgency and the original justification had passed.

2. The Acquisition Process—The practices followed in the procurements with Frank Gomez, IBC, and INSI (Institute for North South Issues, a non-profit foundation operated by Frank Gomez) were generally contrary to proper acquisition policies and procedures and failed to meet the fundamental requirements of the Federal Acquisition Regulation (FAR).

In certain instances, Frank Gomez and IBC only entered into formal contractual arrangements with the Department after S/LPD had directed IBC to begin the work. For example, an order awarded to IBC in the amount of \$24,400 was signed by the Department's contracting official almost one month after IBC was to have completed the work and almost four months after IBC had been directed to begin the work by S/LPD officials. The FAR clearly states that the contracting officer is responsible for the control of the contracting process and that contracts may be entered into only by contracting officers.

The OIG determined that all contracts awarded by the Department's procurement office to Mr. Gomez, IBC, and INSI were based on inadequate sole source justifications. In the final \$276,000 contract with IBC another feature of contracting was added--the Competition in Contracting Act of 1984 (CICA). At the time this contract was being considered by S/LPD officials, The FAR had been changed to include the CICA provisions. The Department's contracting officials brought the new FAR provisions to S/LPD's attention, including the new CICA requirements to publicize even proposed sole source awards. This contract was

classified SECRET by S/LPD officials, not publicized by the Department, and was eventually awarded on a sole source basis approximately 11 months after IBC began the work at S/LPD's direction. Moreover, IBC eventually received approximately \$240,000 dollars for its work on the contract, even after the fact that Robert Kagan, who succeeded Ambassador Reich as the Director of the Office of Public Diplomacy, requested in a May 28, 1986 memo to Executive Director Patrick Kennedy that the funds be deobligated.

Federal acquisition regulations require that all proposed contracts over the amount of \$10,000 be published in the Commerce Business Daily (CBD). None of the purchase orders of contracts over \$10,000 awarded to Mr. Gomez or IBC were publicized by the Department's contracting officials. In addition, purchase orders for Mr. Gomez and IBC were made on a fragmented basis, often for less than \$10,000, apparently to circumvent the acquisition requirements.

3. Reasonableness of Prices and Performance—The OIG's audit questioned some charges contained in the FY 1986 contract for \$276,000. Specifically, the report questioned the travel and ADP equipment costs charged by IBC. The OIG report indicated the IG's office would conduct a cost incurred audit at a future date. In December 1987, the OIG completed the audit and disapproved approximately \$84,000 in costs claimed by IBC under the contract. The OIG has recommended that the Department attempt to recover these funds from IBC. To date, the funds have not been recovered.

On September 10, 1984, the Foreign Service Institute (M/FSI) placed a training order for \$16,198 with IBC. The training order required IBC to conduct seminars in El Salvador on improving press relations for El

Salvadoran military officials in late August and early September of 1984. The use on an M/FSI training order to obtain the services of IBC appeared to be inconsistent with the principles that generally apply to M/FSI training orders. Normally, M/FSI arranges for training for State Department employees that is job related. The training order with IBC involved training for foreign officials and was conducted by a private company in a foreign country. Moreover, the OIG discovered in its discussions with IBC officials that the training seminar never took place; instead, individual counseling took place with 20 to 25 individuals. The OIG has recommended that action be taken to recover the funds from IBC since the seminar never took place. To date, the funds have not been recovered.

4. Ethical/Conflict of Interest Considerations--The OIG determined that Daniel Jake Jacobowitz, a Department of Defense intelligence specialist detailed to S/LPD from June 1984 to June 1986, may have violated federal ethical standards by introducing his sister, Fran Jacobowitz, who was a specialist in establishing and operating mail distribution systems, to the head of S/LPD and to Frank Gomez of IBC. S/LPD subsequently contracted with the Institute for North South Issues (INSI) and IBC for analysis, design, and operation of a mail distribution system. The sister was hired by IBC to direct the work under such contracts. The OIG referred the matter to the DOD Inspector General, who, after investigating the incident, determined that Jacobowitz had violated employee standards of ethical conduct. A letter of reprimand was placed in Jacobowitz's personnel file.

Prior to being employed by S/LPD, Frank Gomez was employed as the Director of Foreign Press Centers for USIA. He retired from that agency

on February 14, 1984 and the performance date for the work called for by the purchase order with S/LPD was February 14, 1984 through May 31, 1984.

Documents contained in the S/LPD files indicate that, while he was employed by USIA, Frank Gomez established the Institute for North-South Issues and negotiated with USIA and the State Department for contract work after he retired. The same purchase order was also negotiated with S/LPD while he was employed by USIA.

The OIG referred this matter to the USIA IG on May 15, 1987 to determine whether any conflict of interest laws or regulations were violated. To date, the USIA IG has not initiated any action.

5. Congressional and Press Guidance--The OIG determined that a small but important portion of information provided to Congressional requesters and as press guidance was either inaccurate, incomplete, or potentially misleading. In addition, the OIG concluded that the Department's responsiveness to requests for information by members of Congress and their staffs had been slow and fragmented.

6. Classification of the FY 1986 Contract--S/LPD classified its final \$276,000 contract with IBC as SECRET, contending to officials that it contained sensitive information of a national security nature. However, the contract was virtually a continuation of an unclassified FY 1985 contract, except for the addition of an unclassified document distribution system. The OIG's report concluded that "there was nothing of a national security or even a sensitive nature in the contract. In our opinion, the real reason for classification was to avoid publication in the CBD and possible challenges to the sole source contractual relationship with IBC."

The OIG's report also contains a number of specific recommendations relating to the Department's award and administration of contracts. All of these recommendations, including those recommendations to recoup monies from IBC, have been accepted by the Department. In addition to these recommendations, it is the Committee staff's understanding that the OIG has referred S/LPD Director Otto Reich's name to the Department's personnel office for possible disciplinary action. To date, the office has not taken any action.

THE IRAN/CONTRA INVESTIGATION

For the duration of the Congressional investigation of the Iran/Contra affair, the Committee staff continued its investigation of the activities of S/LPD. In its review of the evidence, it became apparent to the Committee staff that S/LPD's activities were not coordinated within the State Department but by a high level interagency group established by the NSC. As the final report of the Congressional Committees investigating the Iran/Contra affair points out, Walt Raymond, the principal NSC staff officer in charge of monitoring S/LPD

"... was a former senior CIA official, with experience in covert operations, who had been detailed to the NSC staff for a year with Casey's approval, and who upon retirement from the CIA became a Special Assistant to the President with responsibility for public diplomacy affairs."

Once at the NSC, Raymond helped set up a system of inter-agency committees, including a working group on Central American Public Diplomacy. The NSC staff also succeeded in having Otto Reich named as the Director of the new Office of Public Diplomacy (S/LPD), which

reported directly to the NSC. Francis D. Gomez, former public affairs specialist at the State Department and USIA, was hired by S/LPD through a series of sole source, no-bid contracts to carry out a variety of the Reagan Administration policies in Central America. Gomez and his business partner, Richard Miller, former head of public affairs at AID, then formed International Business Communications (IBC), a public relations firm, which also received a number of State Department contracts.

Supported by the State Department and White House, Miller and Gomez became the outside managers of Carl Spitz Channell's fund-raising and lobbying activities. They also served as the managers of Central American political figures, defectors, Nicaraguan opposition leaders and Sandinista atrocity victims who were made available to the press, the Congress and private groups, to tell the story of the Contra cause. They facilitated the transfer of funds raised by Channell and others to Swiss and offshore bank accounts at the direction of Oliver North. They became the key link between the State Department and the Reagan White House with the private groups and individuals engaged in a myriad of endeavors aimed at influencing the Congress, the media and public opinion. They also became the main funnel for private U.S. money going to the Democratic resistance in Nicaragua.

What follows is a description of how an outside private network of individuals was established that, with the guidance of senior White House officials, provided financial and political support for the Contra cause. S/LPD, a relatively obscure office in the State Department, played a pivotal role in maintaining and nurturing this private network, which played a central role in the larger Iran-Contra affair. (All

information in the following section is taken from public sources and published declassified transcripts and records of the Iran-Contra Committees.)

S/LPD AND THE PRIVATE NETWORK

Walt Raymond, a senior career CIA official and propaganda expert, was approached by Donald Gregg, Chief of the Intelligence Directorate at the NSC, and informed that Gregg was recommending to CIA Director Casey and NSC Advisor William Clark that he be assigned to the NSC as Gregg's successor when Gregg departed to join the staff of Vice-President George Bush. Raymond discussed the transfer with Casey, Clark, and McFarlane and received approval for his involvement in setting up the public diplomacy program along with his intelligence responsibilities. Accordingly, he was transferred from CIA headquarters to the NSC in June of 1982.

In the early part of 1983, documents obtained by the Select Committees, and later released in unclassified form, indicate that Walt Raymond, who had succeeded Gregg as the Director of the Intelligence Staff of the NSC, successfully recommended the establishment of an inter-governmental network to promote and manage a public diplomacy plan designed to create support for Reagan Administration policies at home and abroad. Their initial efforts were directed toward involving private groups and individuals in a campaign to influence American and European public opinion on Intermediate Nuclear Force (INF) deployment in Europe.

In the Spring of 1983, the network began to turn its attention toward beefing up the Administration's capacity to promote American support for the Democratic resistance in Nicaragua and the fledgling

democracy in El Salvador. This effort resulted in the creation of the Office of Public Diplomacy for Latin America and the Caribbean in the Department of State (S/LPD), headed by Otto Reich.

On May 25, 1983, Secretary of State George P. Shultz, in an effort to head off the creation of S/LPD, wrote a memorandum to the President asking for the establishment of "simple and straightforward management procedures." The memorandum to the President followed a discussion between the President and Shultz earlier in the day.

In the memo Shultz said:

" . . . Therefore, what we discussed was that you will look to me to carry out your policies. If those policies change, you will tell me. If I am not carrying them out effectively, you will hold me accountable. But we will set up a structure so that I can be your sole delegate with regard to carrying out your policies.

" . . . What this means is that there will be an Assistant Secretary acceptable to you (and you and I have agreed on Tony Motley) who will report to me and through me to you. We will use Dick Stone as our negotiator, who, in conjunction with Tony, will also report solely to me and through me to you. Similarly, there will be an inter-agency committee, but it will be a tool of management and not a decision-making body. I shall resolve any issues and report to you."

The President responded with a memorandum, which stated in part:

"Success in Central America will require the cooperative effort of several Departments and agencies. No single agency can do it alone nor should it. Still, it is sensible to look to you, as I do, as the lead Cabinet officer, charged with moving aggressively to

develop the options in coordination with Cap, Bill Casey and others and coming to me for decisions. I believe in Cabinet government. It works when the Cabinet officers work together. I look to you and Bill Clark to assure that happens."

Attached to the memo was a chart placing the NSC between the Secretary of State and the President for the management of Central American strategy. Shultz had not only lost the battle to prevent the establishment of the office, he also accepted the NSC-sponsored candidate to run the office, and accepted the fact that Reich would report directly to the NSC and not through the Assistant Secretary of State for Inter-American Affairs.

Almost simultaneously with the creation of S/LPD, Walter Raymond, Jr. was named to a new position as Special Assistant to the President and Director of International Communications at the NSC. From that time forward, S/LPD reported to Raymond and his working group on Central American Public Diplomacy at the NSC. The group was composed of representatives of USIA, the CIA and DOD, as well as various NSC staffers, including Oliver North. At least for several months after he assumed this position, Raymond also worked on intelligence matters at the NSC, including drafting a Presidential Finding for Covert Action in Nicaragua in mid-September.

Reich relied heavily on Raymond to secure personnel transfers from other government agencies to beef up the limited resources made available to S/LPD by the Department of State. The NSC also intervened on behalf of S/LPD with top management officials in the State Department to expand Reich's resources within the Department. Personnel made available to the new office included intelligence specialists from the

U.S. Air Force and the U.S. Army. On one occasion, five intelligence experts from the Army's 4th Psychological Operations Group at Fort Bragg, North Carolina, were assigned to work with Reich's fast-growing operation.

White House documents also indicate that CIA Director Casey had more than a passing interest in the Central American public diplomacy campaign. In an August 9, 1983 Memorandum entitled "Private Sector Support for Central American Program," Raymond told Clark:

"A group of public relations specialists met with Bill Casey a few days ago. Faith also met them. The group included Bill Greener, the public affairs head at Philip Morris, and two or three others. They 'stated' what needed to be done to generate a nationwide campaign. Several elements were identified. The first, a fund-raising effort under the direction of someone like Walter Wriston. Secondly, an effective communications system inside the Government. The overall purpose would be to sell a 'new product' — Central America — by generating interest across-the-spectrum."

In an August 29, 1983 memorandum from Raymond to Poindexter, Casey's continuing interest in the effort to influence public opinion was shown by the following reference:

"Bill Casey called on August 26 and would like to follow-up on his idea to have a meeting with five or six key public relations specialists. This is referred to in my earlier memorandum. I put him off until after Labor Day.

". . . When I philosophized a bit with Bill Casey (in an effort to get him out of the loop), he was negative about turning the ball over to State, but very positive about someone like Gil Robinson

working on the problem from within State."

Casey was obviously concerned that the establishment of S/LPD in the State Department might put it beyond NSC control. Casey's involvement in the public diplomacy effort apparently continued throughout the period under investigation by the Committees.

On March 20, 1985, Oliver North sent a memorandum to National Security Advisor Robert McFarlane on the subject, "Timing and the Nicaraguan Resistance Vote." Attached to the memo was a chronological event checklist which outlined efforts "aimed at securing Congressional approval for renewed support to the Nicaraguan Resistance Forces." Responsibility for the various efforts was tasked to a number of individuals in the NSC and Department of State as well as private supporters including former Congressman Dan Kuykendall and State Department contract consultant Frank Gomez. In the cover memo seeking a decision from Don Regan that would trigger some of the private group efforts, North wrote:

"You should also be aware that Director Casey has sent a personal note to Don Regan on the timing matter. We are attempting to obtain a copy for your use."

As late as August of 1986, Walt Raymond prepared a memorandum for Poindexter's signature to Bill Casey on the subject of Central American Public Diplomacy. The memo reported on a new structure in the State Department which moved LPD from the Secretary's Office to the Bureau of Inter-American Affairs. In the cover memo to Poindexter, Raymond indicated his desire to have Peter Dailey, who had been U.S. Ambassador to Ireland and had managed the public diplomacy initiative on INF deployment in Europe, "work closely with Bob Kagan, the Interagency

Central American Public Diplomacy coordinator, and to help coordinate private sector activities such as funding that currently cannot be done by either CIA or State."

On August 22, 1986, Casey responded to the Poindexter memo indicating that he (Casey) had just:

" . . . brought Pete Dailey on board as Counselor to the Director of Central Intelligence. As a CIA employee, naturally, Pete is subject to the legal prohibitions on us relating to activities intending to influence U.S. public opinion or policy. Any advisory role that he plays on the public diplomacy front must, of course, be in accordance with these legal restrictions.

"Similarly, now that Pete has joined us, he obviously can have no role in any private fund-raising effort on behalf of the Nicaraguan Resistance."

Curiously, the letter to Poindexter was apparently not sent to Poindexter but to Walt Raymond because, on August 29, 1986, Raymond forwarded the letter to Poindexter with a cover memo which said:

"Bill Casey has sent a brief note to you which puts some caveats around the activities Peter Dailey can undertake. Peter has talked to me, and I do not believe that this will cause him any difficulties in helping us along the lines of our previous exchanges via the PROFS system."

On August 26, 1986, Raymond sent a PROF note to Poindexter on the subject of "Central America Public Diplomacy." The PROF note said, in part:

"As a follow-up, Peter Dailey invited me to breakfast. I thought the memo was excellent but he did not feel that it totally filled

the bill. What he thought was missing was the immediacy of the problem from the American domestic perspective. He believes that we are operating with a relatively narrow window in which to turn around American perceptions re Contras — and particularly Nic — or we will be chewed up by Congress. We discussed the obvious, which is part of our strategy, including such things as: the need to convince people of the key importance of Contras to our national security; the need to glue white hats on our team, etc. The themes are those we have pressed although he believes we could change the dialogue away from Contras to democrats; emphasize the need for a free and open vote, etc. Nothing really new here. The key difference is that he thinks we should run it more like a political/presidential campaign. We need to strengthen our ability to reach out. Names like Rollins, Nofziger and co. were thrown around as the kinds of resources one needs to tap.

"Later, in talking to Ollie and Bob Kagan, we focussed on what is missing and that is a well-funded, independent outside group — remember the Committee for the Present Danger — that could mobilize people. Peter suggested 10 or 12 very prominent bipartisan Americans. Added to this would need to be a key action officer and a 501-c-3 tax-exempt structure. It is totally understanding that such a structure is needed and also totally understanding why, for discreet political reasons, it was not included in the memo to Bill Casey. I told Pete he was right but we need 'a horse' and money!"

As late as November 10, 1986, Raymond sent another PROF note to Poindexter on the subject of "Cent Am Private Sector Initiative," which stated:

"There have been several meetings following up on the effort to get a major, bipartisan group formed to help promote an 'educational' program in the U.S. which would help provide understanding (and support) for our Centam policy, particularly vis-a-vis Nicaragua.

"Although Pete Dailey, Bill Casey and Clif White have all been involved in general discussion of what needs to be done, we are going to have to be sure that Pete and Bill are not involved. Pete is getting very nervous on this item. Hence, Clif is now taking the lead. The current focus is to get a bipartisan co-chairmanship, a six man (roughly) EXCOM, a staff director and a large bipartisan advisory council. Current names being tossed around for the co-chair include Jack Gavin, Bill Rogers, Dean Rusk and Mark White. Pete (and Ollie) favor going with Gavin. Clif is also talking to several key democratic activist types for their recommendations. Jim Woolsey's name has come up in that context. Clif has the list of several effective operators who have just finished the fall campaign (plus some soon-to-be ex-staffers on the Hill) who might be a good EXDIR. Dave Miller has also been helpful, particularly in terms of getting the 501-c-3 status and access to fresh faces in the political consultant field. Clif has (or will) be seeking names from Mitch Daniels too.

"The problem with all of this is that to make it work it really has to be one step removed from our office and, as a result, we have to rely on others to get the job done. Will keep you posted."

From early 1983 until November of 1986, the NSC staff, with the backing of Bill Casey and support from National Security Advisors Bill

Clark, Bud McFarlane and John Poindexter, and with continuing help from Oliver North, created an inter-governmental structure the purposes and activities of which were masked from Congress and public view. The NSC and S/LPD, operating under the cover of the State Department, hired outside consultants and gave encouragement, support and direction to groups of private citizens outside the government. These groups raised money for Contra weapons, lobbied the Congress, ran sophisticated media campaigns in targeted Congressional districts, and worked with S/LPD to influence American public opinion through manipulation of the American press. In the latter half of 1986, Raymond was attempting to set up a private group with more prestige and greater clout than the Rich Miller/Spitz Channell network that had been quickly assembled and utilized to work on the 1986 Contra aid vote in the Congress.

While donations from other countries and profits from the Iran arms sales provided most of the money for lethal assistance to the Contras after the Boland Amendment, a network of private foundations and organizations, including those associated with Carl R. "Spitz" Channell and Richard R. Miller, also played an essential role. Channell's principal organization, the tax-exempt National Endowment for the Preservation of Liberty (NEPL), used White House briefings and private meetings with the President to raise more than \$10,000,000 from private contributors, almost all for the Contra cause. Over half of this total came from two elderly widows -- Barbara Newington and Ellen Garwood -- who made the bulk of their contributions after receiving private and emotional presentations by Oliver North on the Contras' cause and military needs. One dozen contributors accounted for ninety percent of NEPL's funds in 1985 and 1986.

Richard Miller's principal organization, International Business Communication (IBC), was a partnership between Miller and Frank Gomez, which began to work on behalf of the Contras under a State Department contract that began in early 1984. From early 1984 until the Summer of 1985, IBC's principal source of income was derived from a series of State Department sole-source, no-bid contracts pushed through the bureaucracy by the principal officials of S/LPD.

The first State Department contract for IBC began in February 1984, shortly after S/LPD had begun its work. Miller and Gomez were introduced to Oliver North in mid-1984 by State Department officials from S/LPD. From that period forward, Miller and Gomez worked closely with North as well as the Office of Public Diplomacy in carrying out a variety of assignments related to the promotion of the Contra cause.

In the Spring of 1985, White House Deputy Political Director John Roberts sent Spitz Channell and his Deputy, Dan Conrad, to meet with Miller and Gomez, who, Roberts believed, could best advise them how to utilize their fund-raising services on behalf of the Contra cause. Roberts was so confident in IBC's connections to the Administration that he described it as the "White House outside the White House." Miller and Gomez assisted Channell in his fund-raising efforts and advised Channell on the disbursement of the proceeds for various projects including lobbying, television ads, newspaper ads and grassroots activities designed to influence Congressional votes on aid to the Contras.

Congressman Mike Barnes, whose Congressional district adjoins Washington, D.C. and who was Chairman of the House Foreign Affairs Subcommittee on Western Hemisphere Affairs, was a special recipient of

television ads financed by Channell. Heavy television advertising was directed against Barnes even though the sponsors knew that there was no chance they could change his mind or his vote. They felt, however, that since these ads were scheduled to run in the Washington media market, they would be seen by all Members of Congress and serve as a warning. The Washington television campaign was supplemented by ad campaigns in selectively targeted Congressional districts. The entire effort, although paid for by Spitz Channell and his contributors, was actually managed by Rich Miller and others, including Dan Kuykendall and Penn Kemble.

Of the \$10,000,000 that was raised, nearly two million dollars was spent for public relations, political advertising and lobbying. Much of the rest was retained by Miller and Channell for salaries, fees and expenses incurred by their organizations. The NEPL money that was spent for direct and indirect assistance to the Contras was disbursed, primarily by Miller, at the direction of North. Approximately \$1.7 million was "washed" by Channell through Miller's domestic and Cayman Island entities — International Business Communications (IBC) and I.C., Inc. — to the Enterprise, where it was commingled with funds from third country contributions and the Iranian arms sale. Another one million dollars was passed at the direction of North through Miller's entities to accounts controlled by Adolfo Calero. Approximately \$500,000 was distributed at North's request to other persons and entities engaged in activities relating to the Contras, including Rob Owen, Dan Kuykendall, Thomas Dowling, the Washington UNO Office and some unidentified entities.

Friends of the Democratic Center in Central America (PRODEMCA),

which concentrated on Central American issues, was another organization that had close financial and personal ties to Channell and Miller. Penn Kemble, the President of PRODEMCA, was involved in a broad array of activities related to Spitz Channell's Central American Freedom Program and the Reagan Administration's efforts on behalf of the Contras. Kemble initially recommended to Miller and Gomez that Bruce Cameron be hired as a lobbyist for PRODEMCA. The relationship, however, was eventually accomplished by Kemble and Cameron taking over Rob Owens' organization, the Institute for Democracy and Education in America (IDEA), changing its name to Center for Democracy in the Americas (CDA), and readjusting the board of directors to include Kemble as Chairman and Cameron as President.

Kemble was also one of the principals in the Institute for Religion and Democracy, which worked with Otto Reich's S/LPD office in the State Department and received some minimal funds from IBC. At the PRODEMCA offices, Kemble hosted legislative strategy sessions, in at least one of which State Department official Robert Kagan was a participant, prior to the 1986 Congressional votes on Contra aid.

In the summer of 1985, Oliver North, with the assistance of Richard Miller and Frank Gomez, enlisted the services of Roy Godson and the Heritage Foundation in his successful effort to transfer money indirectly to Miller's Cayman Island bank account. North initially asked Roy Godson, a consultant to the NSC, a member of the President's Foreign Intelligence Advisory Board, and the Director of the Washington Office of the National Strategy Information Center (an organization founded by William Casey and with extensive ties to the intelligence community), to raise money to be spent in Nicaragua. Godson later met

with Miller, who suggested two alternative routes for contributions: donations to the Institute for North-South Issues (INSI), a tax-exempt organization controlled by Miller's partner, Frank Gomez; or money transfers directly to Miller's Cayman Islands bank account.

Godson turned for assistance to Clyde Slease of Pittsburgh, counsel to Richard Mellon Scaife and several Mellon family foundations. At the request of Slease, Godson arranged for a meeting with North and Robert McFarlane in the Situation Room of the White House. Slease agreed to try to raise \$400,000 for North's project. Slease then persuaded an acquaintance in Pittsburgh, John Donahue, to donate \$100,000, and they settled on designating the Heritage Foundation as the recipient of the donation.

A September 12, 1985 letter from Richard Miller to Edwin Fuelner, Director of the Heritage Foundation, indicates that Donahue's \$100,000 grant to the Heritage Foundation was then awarded to INSI in the form of a grant for, according to Miller's letter, "the purpose of disseminating in Central America materials designed to educate the public on U.S. policy objectives." No such materials, however, were ever produced by INSI. Instead, Miller instructed INSI, after Heritage awarded it the \$100,000, to transfer \$80,000 of the grant to his Cayman Islands account from which funds were withdrawn as directed by North. INSI retained a twenty percent administrative fee for its distribution of the grant, which, according to Miller, was the standard fee North had recommended him to take. Donahue was never informed that INSI would be the recipient of his grant nor that the money would eventually find its way into Miller's Cayman Island account or North's Lake Resources account.

The grant to INSI via Heritage is one example of the elaborate

efforts Channell and Miller made to conceal the nature of their fund-raising activities and North's role. Certain funds received by NEPL for Contra assistance were allocated on Channell's books to a project denominated "Toys," a euphemism for weapons. NEPL and IBC employees were instructed to refer to North by a code name, "Green." Funds were transferred to the Contras, not directly—which would be traceable—but through Miller's anonymous offshore entity, I.C., Inc.

North misrepresented to several White House officials the nature of the network's fund-raising activities. For instance, the President apparently was led to believe that the funds were being raised for political advertising; the President's Chief of Staff, Donald Regan, was deliberately kept in the dark by North and Poindexter; and North misrepresented to Congress and White House personnel the nature of his involvement in the activities of NEPL and IBC. As a result, the Miller/Channell network was able to operate successfully until the latter part of 1986, when increased government aid to the Contras and public disclosure of both the Iranian arms sales and the Contra resupply network made further assistance efforts unnecessary and unwise.

By using a tax-exempt organization to funnel money to the Contras—for arms and other purposes—Channell and Miller provided tax deductions to donors. As a result, the United States Government effectively subsidized a portion of the contributions intended for lethal aid to the Contras. In the Spring of 1987, Channell and Miller pled guilty to criminal tax charges of conspiring to defraud "the United States Treasury of revenues to which it was entitled by subverting and corrupting the lawful purpose of NEPL by using NEPL...to solicit contributions to purchase military and other non-humanitarian aid for

the Contras." At his plea hearing, Channell identified Miller and North as his coconspirators.

CONCLUSIONS

This report, as well as the documents and testimony upon which it is based, indicates that senior CIA officials with backgrounds in covert operations, as well as military intelligence and psychological operations specialists from the Department of Defense, were deeply involved in establishing and participating in a domestic political and propaganda operation run through an obscure bureau in the Department of State which reported directly to the National Security Council rather than through the normal State Department channels.

The NSC working group on Central American Public Diplomacy was run by a former senior CIA propaganda specialist and included representatives of the CIA, the Department of Defense and the USIA as well as various NSC staff, including Oliver North. Former CIA Director William Casey approved of the operation and was kept informed of its activities throughout its existence. Donald Gregg, a former high-ranking CIA official who is presently the National Security Advisor to Vice President Bush, initiated the recommendation which led to the assignment of the senior CIA covert operative to the NSC. That official, Walter Raymond, Jr., was responsible for the establishment of the S/LPD mechanism at the State Department, even over the objections and resistance of Secretary of State George Shultz. Raymond also ran the Central American Working Group on Public Diplomacy at the NSC to which S/LPD reported. He was instrumental in facilitating the assignment of intelligence personnel from the Department of Defense to

S/LPD and the expansion of State Department resources available to S/LPD despite objections to, and initial denials of, such requests by senior officials at the Departments of Defense and State. Through irregular sole-source, no-bid contracts, S/LPD established and sustained a private network of individuals and organizations whose activities were coordinated with, and sometimes directed by, Col. Oliver North as well as officials of the NSC and S/LPD. These private individuals and organizations raised and spent funds for the purpose of influencing Congressional votes and U.S. domestic news media. This network raised and funneled money to off-shore bank accounts in the Cayman Islands or to the secret Lake Resources bank account in Switzerland for disbursement at the direction of Oliver North.

Almost all of these activities were hidden from public view and many of the key individuals involved were never questioned or interviewed by the Iran/Contra Committees. Relevant documents discovered in S/LPD's files by the GAO were never provided to the Iran/Contra Committees nor the Foreign Affairs Committee despite repeated requests. The State Department Office of Personnel has, for over a year, refused to act on a recommendation by the State Department Inspector General that the former head of S/LPD be subjected to disciplinary action. A recommendation to the Inspector General of USIA that certain matters related to these activities be investigated has apparently been ignored or inexplicably delayed. Key officials of the NSC and S/LPD, who were responsible for many of these improper activities, have been promoted or transferred to senior positions in the U.S. Government.

A subsequent investigation may be necessary to determine the extent to which the Department of State was used, and perhaps compromised, by

the CIA and the NSC to establish, sustain and manage a domestic covert operation designed to lobby the Congress, manipulate the media and influence domestic public opinion.

Channel-Miller Centre Assistance Network

